

**NORTH CENTRAL KANSAS REGIONAL
JUVENILE DETENTION FACILITY**

**FINANCIAL STATEMENT
WITH INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NORTH CENTRAL KANSAS REGIONAL
JUVENILE DETENTION FACILITY**

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Pottberg, Gassman & Hoffman, Chtd.

INDEPENDENT AUDITORS' REPORT

Board of Directors
North Central Kansas Regional Juvenile Detention Facility
Junction City, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the North Central Kansas Regional Juvenile Detention Facility (Facility), as of and for the year ended December 31, 2014 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Facility to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles

generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the 'Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles' paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Facility, as of December 31, 2014, or changes in financial position and cash flows thereof for the year then ended. Further, the Facility has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statement.

Opinion on the Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Facility as of December 31, 2014, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the summary statement of receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The schedule of regulatory basis receipts and expenditures-actual and budget, (Schedule 1 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement, however is required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole on the basis of accounting described in Note 1.

The 2013 Actual column presented in the schedule of regulatory basis receipts and expenditures-actual and budget (Regulatory-Required Supplementary information as listed in the table of contents) is also presented for comparative analysis and is not a required part of the 2013 financial statement upon which we rendered an unqualified opinion dated February 10, 2014. The 2013 financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://da.ks.gov/ar/muniserv/>. Such 2013 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 financial statement. The 2013 comparative information was subjected to the auditing procedures applied in the audit of the 2013 financial statement and certain additional procedures, including comparing and reconciling such statement to the 2013 financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 comparative information is fairly stated in all material respects to the 2013 financial statement as a whole, on the basis of accounting described in Note 1.

Pottberg, Gassman & Hoffman, Chtd.

Pottberg, Gassman & Hoffman, Chtd.
Junction City, Kansas
February 13, 2015

**NORTH CENTRAL KANSAS REGIONAL
JUVENILE DETENTION FACILITY**

**SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Funds</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Prior Year Canceled Encumbrances</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add Outstanding Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
Governmental Type Fund:							
General Fund	\$ 698,107	-	\$ 1,170,976	\$ 1,116,012	\$ 753,071	6,660	\$ 759,731
Total Reporting Entity	<u>\$ 698,107</u>	<u>-</u>	<u>\$ 1,170,976</u>	<u>\$ 1,116,012</u>	<u>\$ 753,071</u>	<u>\$ 6,660</u>	<u>\$ 759,731</u>
Composition of Cash:				Checking Account			\$ 256,609
				Certificates of Deposit			503,122
				Total Reporting Entity			<u>\$ 759,731</u>

The notes to the financial statement are an integral part of this statement.

**NORTH CENTRAL KANSAS REGIONAL JUVENILE DETENTION FACILITY
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The North Central Kansas Regional Juvenile Detention Facility (Facility) is a jointly governed organization created as a separate legal entity on November 23, 1992. The Facility, located in Junction City, Kansas, was organized by its members to provide a detention facility for juvenile offenders. The governing body of the facility is composed of member county representatives. The member counties are Geary, Cloud, Riley, Dickinson, Marion, Morris, Mitchell, Republic, Lincoln, Jewell, Washington, Marshall, Pottawatomie, Ottawa and Saline.

The accounting and reporting policies of the Facility conform to the regulatory basis laws of the State of Kansas. The more significant accounting policies of the Facility are described below.

B. Regulatory Basis Fund Types

The Facility uses a Governmental fund to account for its financial activity.

General Fund – The General Fund is the operating fund of the Facility. This fund is used to account for all financial resources and is therefore, unrestricted. All expenditures of the Facility are paid from the General Fund.

C. Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The facility has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the facility to use the regulatory basis of accounting.

D. Budgetary Information

The Facility's interlocal cooperation agreement establishes the fiscal year as the twelve-month period beginning January 1. The Facility's management prepares a budget of estimated cash receipts and expenditures annually for the ensuing fiscal year. The annual operating budget is adopted, but is for internal management use only. State of Kansas statutes do not require the facility to prepare or submit a legal budget.

**NORTH CENTRAL KANSAS REGIONAL JUVENILE DETENTION FACILITY
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgetary Control (continued)

A comparison of actual cash receipts and expenditures and budget amounts is presented on the Schedule of Receipts and Expenditures – Actual and Budget in the supplementary information.

E. Use of Estimates

The preparation of the financial statement in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Date of Management's Review

The Facility evaluated subsequent events through February 13, 2015, the date in which the financial statement was available to be issued.

2. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the Facility. The statute requires banks eligible to hold the Facility's funds have a main or branch bank in the county in which the Facility is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Facility has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Facility's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Facility has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Facility may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Facility's deposits may not be returned to it. State statutes require the Facility's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Facility has no designated "peak periods." All deposits were legally secured at December 31, 2014.

**NORTH CENTRAL KANSAS REGIONAL JUVENILE DETENTION FACILITY
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014**

2. DEPOSITS AND INVESTMENTS (CONTINUED)

At December 31, 2014, the carrying amount of the Facility's deposits was \$759,731 and the bank balance was \$760,756. The bank balance was held by two banks. Of the bank balance, \$500,000 was covered by federal depository insurance and \$260,756 was collateralized with securities held by the pledging financial institutions' agents in the Facility's name. The bank balance at one of the banks not covered by federal depository insurance exceeded 5% of the total bank balances which results in a concentration of credit risk per GASBS 40, paragraph 11.

3. DEFINED BENEFIT PENSION PLAN

Plan Description. The Facility participates in the Kansas Public Employees Retirement System (KPERS) a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-419 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

4. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

Compensated Absences. The Facility's policy is to recognize the costs of compensated absences when actually paid.

Vacation Leave: The Facility's policy regarding vacation leave allows employees to accumulate vacation time based on years of continuous service as follows:

<u>Years of Continuous Service</u>	<u>Vacation Days Accrued</u>	<u>Maximum Accrual</u>
One or Less	0.75 days/mo.	9 days
1 to 10	1.25 days/mo.	20 days
10 to 15	1.50 days/mo.	24 days
Over 15	2.00 days/mo.	30 days

Vacation leave is earned by the month. Upon termination of employment an employee is entitled to pay for unused accrued vacation leave. The facility estimates the dollar amount of accrued vacation at December 31, 2014 at \$23,519.

**NORTH CENTRAL KANSAS REGIONAL JUVENILE DETENTION FACILITY
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2014**

4. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS (CONTINUED)

Sick Leave: The Facility's policy regarding sick leave allows employees to accumulate sick time based on years of continuous service as follows:

<u>Years of Continuous Service</u>	<u>Vacation Days Accrued</u>	<u>Maximum Accrual</u>
One or Less	0.50 days/mo.	6 days
Over One Year	1.0 days/mo.	90 days

Sick leave is earned by the month. Upon termination of employment, an employee is not entitled to pay for unused accrued sick leave. In December 2013, the Facility approved an incentive program in which employee's can receive cash compensation in an amount equal to 20% of the available balance of accrued sick leave due to the employee as of the end of the year. The first pay-out under this new program was made in January 2014 for a total of \$7,891.

Other Post Employment Benefits. Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the municipality makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

5. LITIGATION

There were no legal actions involving the Facility as of December 31, 2014.

6. RISK MANAGEMENT

The Facility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against risk of these types of losses, the Facility has purchased commercial insurance coverage. Settled claims resulting from these risks have not exceeded commercial coverage in the past three years.

**REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION**

**NORTH CENTRAL KANSAS REGIONAL
JUVENILE DETENTION FACILITY**

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE ACTUAL TOTALS FOR THE PRIOR YEAR ENDED DECEMBER 31, 2013)

	2013	2014		Variance
				Over
<u>GENERAL FUND</u>	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>(Under)</u>
Cash Receipts:				
State and County Payments	\$ 1,123,581	1,169,544	1,115,500	54,044
Telephone Income	1,088	-	-	-
Interest	1,414	1,432	-	1,432
Total Cash Receipts	<u>1,126,083</u>	<u>1,170,976</u>	<u>1,115,500</u>	<u>55,476</u>
Expenditures:				
Advertising, Dues and Subscriptions	4,151	3,225	6,000	(2,775)
Accounting	12,200	12,610	13,000	(390)
Legal	6,265	8,380	11,000	(2,620)
General Supplies	27,934	21,318	22,000	(682)
Insurance - Property and Other	19,764	24,195	22,000	2,195
Insurance - Workers Comp	11,777	1,843	15,000	(13,157)
Food Service	58,689	70,953	92,000	(21,047)
Utilities	28,928	32,842	30,000	2,842
Telephone	7,109	6,614	8,000	(1,386)
Postage	1,167	954	2,500	(1,546)
Resident Medical / Miscellaneous	35,636	34,454	24,000	10,454
Payroll Taxes	52,916	45,008	65,000	(19,992)
Payroll	538,065	593,899	625,000	(31,101)
Repairs and Maintenance	48,341	32,601	25,000	7,601
Reimbursed Medical	-	3,591	1,000	2,591
Reimbursements to Agencies	-	875	-	875
Capital Outlay	11,364	67,584	5,000	62,584
Staff Training and Travel	5,825	11,145	8,000	3,145
KPERs Employer Contribution	43,180	57,353	55,000	2,353
Insurance - Medical	47,722	68,871	70,000	(1,129)
Uniform Rentals	14,132	17,697	16,000	1,697
Total Expenditures	<u>975,165</u>	<u>1,116,012</u>	<u>1,115,500</u>	<u>512</u>
Receipts Over (Under) Expenditures	150,918	54,964		
Unencumbered Cash, January 1	<u>547,189</u>	<u>698,107</u>		
Unencumbered Cash, December 31	<u>\$ 698,107</u>	<u>753,071</u>		



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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Directors
North Central Kansas Regional Juvenile Detention Facility
Junction City, Kansas

We have audited the summary statement of receipts, expenditures, and unencumbered cash of North Central Kansas Regional Juvenile Detention Facility (Facility) as of and for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 29, 2014 and in our meeting on January 21, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Facility are described in Note 1 to the financial statement. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2014. We noted no transactions entered into by the Facility during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statement was:

Management's estimate of compensated absences is based on the value of unused vacation hours at December 31, 2014. We evaluated the key factors and assumptions used to develop the level of compensated absences in determining that it is reasonable in relation to the financial statement taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing the audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the audit, we recommended an adjusting journal entry to record an encumbrance that had the effect of decreasing fund balance by \$6,526. Management has posted the adjusting entry which is provided on the attached schedule. In addition, a schedule summarizing uncorrected misstatements of the financial statement is also attached. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statement taken as a whole.

Disagreements with Management

For the purpose of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 13, 2015.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Recommendations

As part of our audit, we considered the internal control of the Facility. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We have issued a separate letter discussing internal control deficiencies.

Other Matters

With respect to the supplementary information accompanying the financial statement, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the regulatory basis of accounting to show compliance with the cash basis laws of Kansas, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statement. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statement or to the financial statement itself.

This information is intended solely for the use of the Facility's, management, the Board of the Facility, and the Department of Administration, Office of Management Analysis and Standards and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Pottberg, Gassman & Hoffman, Chartered

Pottberg, Gassman & Hoffman, Chartered
Junction City, Kansas
February 13, 2015

Prepared by _____

NCK JUVENILE DETENTION CENTER
Adjusting Journal Entries

AUDITJ00741

Page 1

Reviewed by _____

TB-2
ssf 2/11/15

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
AJEI	Adjusting	12/31/14					
		30.2					
		2000	Accounts Payable		6,526.00		
		5026	Repairs & Maintenance	6,526.00			
			payable			(6,526.00)	
			Record Encumbrance to Anderson Sewer & Drain				
		TOTAL		<u>6,526.00</u>	<u>6,526.00</u>	<u>(6,526.00)</u>	

NCK JUVENILE DETENTION CENTER
Audit Differences
12/31/2014

	<u>Account</u>	<u>Debit</u>	<u>Credit</u>	<u>NI Impact</u>	<u>WP REF</u>
Repairs and Maintenance	5026	100.00		(8,435.98)	<u>30.2</u>
Accounting	5003	415.00			
General Supplies	5006	1,165.08			
Legal Fees	5004	1,395.00			
Resident Medical / Misc.	5019	3,818.10			
Staff Training and Travel	5032	1,542.80			
Accounts Payable	2000		8,435.98		

Record Encumbrances

As each invoice and line item is under individually significant, the facility is not required to prepare or submit a legal budget and the overall entry is under Tolerable Misstatement, the entry is listed as an audit difference and not an adjusting entry.

Insurance Medical	5040	947.67		(947.67)	<u>20.9b</u>
Accounts Payable	2000		947.67		

Do not record, under tolerable misstatement.



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Communication of Significant Deficiencies

To the Board of Directors
North Central Kansas Regional Juvenile Detention Facility
Junction City, Kansas

In planning and performing our audit of the financial statement of the North Central Kansas Regional Juvenile Detention Facility (Facility) as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*, we considered the Facility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be a material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Facility's internal control to be a significant deficiency:

Financial Reporting

Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statement of the cash and unencumbered cash balances, and its cash receipts and expenditures, including the notes to the financial statement, in conformity with the cash basis and budget laws of the State of Kansas and the *Kansas Municipal Audit and Accounting Guide*.

At times, management may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the entity. Management is as responsible for outsourced functions performed by a service provider, as it would be for such functions performed internally. Specifically, management is responsible for management decisions and functions; for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services; and for evaluating the adequacy and results of those services and accepting responsibility for them.

As part of the audit, management requested us to prepare a draft of your financial statement and regulatory-required supplementary information, including the related notes to the financial statement. Management reviewed, approved, and accepted responsibility for the financial statement and regulatory-required supplementary information, including the related notes, prior to their issuance; however, management does not have the ability to evaluate the completeness of financial statement disclosures.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Facility, and is not intended to be and should not be used by anyone other than those specified parties.

Pottberg, Gassman & Hoffman, Chtd.

Pottberg, Gassman & Hoffman, Chartered
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February 13, 2015



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MANAGEMENT COMMENTS LETTER

To the Board of Directors
North Central Kansas Regional Juvenile Detention Facility
Junction City, Kansas

In planning and performing our audit of the summary statement of receipts, expenditures, and unencumbered cash of North Central Kansas Regional Juvenile Detention Facility (Facility) as of and for the year ended December 31, 2014, we considered the Facility's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statement and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated February 13, 2015 on the financial statement of the Facility.

We will review the status of these comments during our next engagement. We have discussed some of these comments and suggestions with management. Our comments concerning the current year are summarized as follows:

Inventory

In the prior years, we have noted discrepancies with the inventory listing. During the current year, we also noted discrepancies but did identify many improvements. The primary discrepancy that was identified in the current year was related to items that were indicated they were moved to the shed on the 2014 inventory listing but were not in the shed in 2015 because they were trashed during the year. We recommend the Facility ensures all items remain on the listing with a change in status of 'trashed' and are not deleted from the listing until the next year.

Insurance Elections and Payroll

For the prior year, audit judgmentally selected six employee files to verify the most current pay rate was reflected in their file and that the employees were paying the correct amounts for insurance based upon their election form. Due to findings noted in the prior year, this test was repeated in the current year. The following was noted:

- One of six employees did not have an insurance enrollment form or a waiver in his file. Shawn has followed-up with the employee who does want insurance and is getting signed up in the current year.
- One of six employees was paying for insurance he did not select on his election form. Shawn has corrected the error and will be correcting the overage charged the employee.

MEMBERS:
American Institute of
Certified Public Accountants

Kansas Society of Certified
Public Accountants



Sick-Leave Accrual

When testing the new incentive policy on the sick-leave pay-out, audit noted that the calculation of sick-leave hours was not always accurate for the individuals tested. In one specific case, the hours paid out in January 2014 were not subtracted from the roll-forward balance and thus, the employee was paid out in January 2015 for more sick leave than he should have had accrued. Shawn has been made aware of the discrepancies and he is checking all of the current hours to see if they are accurate. With this change in the policy, we recommend that a second individual verify the calculations for the pay-out and hours are accurate prior to issuing the check to the employees.

New Employee Handbook

When reviewing the employee handbook for the update on the sick pay incentive policy we noted the following:

- Retirement section (section 312) of the new employee manual in regards to KPERS still states that employees contribute 4% of gross income to KPERS. This should be updated to the new rules.
- The pay scale portion (section 313) also had the old base rate of \$11.00 which needs to be increased to the \$11.50 approved in the September 17, 2014 minutes.
- The sick pay policy does not specifically state that sick pay is not paid out to an employee upon retirement or termination. The facility might want to consider adding a statement.

If you or any of the Facility employees have any questions concerning these recommendations, we would welcome the opportunity to discuss them with you. We would also like to express our appreciation to all of the Facility's employees for their cooperation and assistance during the course of our audit. Thank you for allowing us to be of service to you.

This communication is intended solely for the information and use of management, the North Central Kansas Regional Juvenile Detention Facility Board, and the Department of Administration, Office of Management Analysis and Standards and is not intended to be and should not be used by anyone other than those specified parties.

Sincerely,

Pottberg, Gassman; Hoffman, Chld.

Pottberg, Gassman & Hoffman, Chartered
Junction City, Kansas
February 13, 2015